

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name TAWAS UTILITY AUTHORITY	County IOSCO
Audit Date 06/30/2004	Opinion Date 10/04/2004	Date Accountant Report Submitted to State: 11/01/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

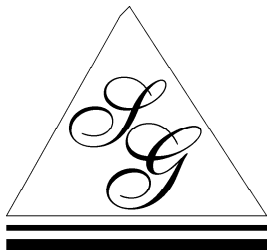
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



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TAWAS UTILITY AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2004

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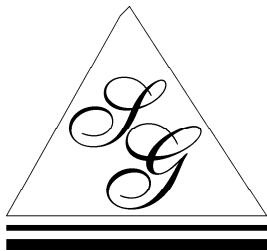
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Herman A Bertuleit, CPA

October 4, 2004

Independent Auditors' Report

Members of the Authority Board
Tawas Utility Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tawas Utility Authority, Iosco County, Michigan, as of and for the year ended June 30, 2004, as shown on pages 3 and 4, which comprise a portion of the Utility Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 2, management has not presented the management discussion and analysis and the government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of the management discussion and analysis and the government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Utility Authority's governmental activities is not reasonably determinable.

In our opinion except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of each major fund of the Tawas Utility Authority, Iosco County, Michigan, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2004, on our consideration of the Tawas Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Tawas Utility Authority has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

Members of the Authority Board
Tawas Utility Authority
October 4, 2004
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The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Grault & Co., P.C.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2004

With Comparative Totals for June 30, 2003

	General Fund	Industrial Park Project Sewer System #2 Debt Service Fund	Industrial Park Project Sewer System #2 Construction Fund	Totals June 30, 2004	June 30, 2003
<u>ASSETS</u>					
Cash and cash equivalents (Note 3)	\$ 129,422	\$ 0	\$ 170	\$ 129,592	\$ 61,494
Due from other units	35,930	0	0	35,930	51,977
Prepaid expense (Note 1)	<u>9,970</u>	<u>0</u>	<u>0</u>	<u>9,970</u>	<u>10,082</u>
Total Assets	<u>\$ 175,322</u>	<u>\$ 0</u>	<u>\$ 170</u>	<u>\$ 175,492</u>	<u>\$ 123,553</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts payable	\$ 54,132	\$ 0	\$ 0	\$ 54,132	\$ 26,066
Accrued interest	<u>718</u>	<u>0</u>	<u>0</u>	<u>718</u>	<u>718</u>
Total liabilities	<u>54,850</u>	<u>0</u>	<u>0</u>	<u>54,850</u>	<u>26,784</u>
<u>Fund Equity</u>					
Fund balances:					
Unreserved:					
Designated for capital improvements	70,915	0	0	70,915	50,311
Undesignated, reported in:					
General fund	49,557	0	0	49,557	46,292
Capital project fund	<u>0</u>	<u>0</u>	<u>170</u>	<u>170</u>	<u>166</u>
Total fund equity	<u>120,472</u>	<u>0</u>	<u>170</u>	<u>120,642</u>	<u>96,769</u>
Total Liabilities and Fund Equity	<u>\$ 175,322</u>	<u>\$ 0</u>	<u>\$ 170</u>	<u>\$ 175,492</u>	<u>\$ 123,553</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2004
With Comparative Totals for the Year Ended June 30, 2003

	General Fund	Industrial Park Project Sewer System #2 Debt Service Fund	Industrial Park Project Sewer System #2 Construction Fund	Totals June 30, 2004	June 30, 2003
<u>Revenue</u>					
Contributions from local units	\$ 0	\$ 0	\$ 72,105	\$ 72,105	\$ 52,855
Charges for services	419,340	0	0	419,340	421,320
Interest earned	666	0	4	670	340
Miscellaneous	241	0	0	241	259
Total revenue	<u>420,247</u>	<u>0</u>	<u>72,109</u>	<u>492,356</u>	<u>474,774</u>
<u>Expenditures</u>					
Professional services	326,838	0	0	326,838	308,372
Insurance	14,003	0	0	14,003	12,288
Miscellaneous	5,600	0	0	5,600	5,397
Debt service:					
Principal	45,374	45,000	0	90,374	70,751
Interest and fiscal charges	4,563	27,105	0	31,668	36,844
Total expenditures	<u>396,378</u>	<u>72,105</u>	<u>0</u>	<u>468,483</u>	<u>433,652</u>
Excess of revenue over (under) expenditures	<u>23,869</u>	<u>(72,105)</u>	<u>72,109</u>	<u>23,873</u>	<u>41,122</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	72,105	0	72,105	53,118
Operating transfers out	0	0	(72,105)	(72,105)	(53,118)
Total other financing sources (uses)	<u>0</u>	<u>72,105</u>	<u>(72,105)</u>	<u>0</u>	<u>0</u>
Excess of revenue and other sources over expenditures and other uses	23,869	0	4	23,873	41,122
Fund balances - beginning of year	<u>96,603</u>	<u>0</u>	<u>166</u>	<u>96,769</u>	<u>55,647</u>
Fund balances - end of year	<u>\$ 120,472</u>	<u>\$ 0</u>	<u>\$ 170</u>	<u>\$ 120,642</u>	<u>\$ 96,769</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Utility Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Tawas Utility Authority operates under the supervision and control of a Board consisting of the Mayors and City Managers of both the City of Tawas City and the City of East Tawas. The accompanying basic financial statements of the Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, except as noted in Note 2. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Venture

The Tawas Utility Authority functions as a joint venture between the City of Tawas City and the City of East Tawas. The Authority was established for the construction and operation of water and sewage treatment facilities to service both municipalities. Effective May 1, 1997, the Tawas Utility Authority no longer handles water operations. These operations were taken over by the Huron Shore Regional Utility Authority.

C. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Governmental Funds

Governmental funds are those through which all of the governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the major governmental funds of the Authority:

General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from charges for services and contributions from local governmental units.

Industrial Park Project Sewer System #2 Debt Service Fund – This fund is used to record revenues which are restricted for the payment of principal and interest on long-term debt.

Industrial Park Project Sewer System #2 Construction Fund – This fund is used to account for the acquisition or construction of major facilities other than those financed general fund operations.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at a detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. All of the Authority's funds are considered major funds.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions:

On the modified accrual basis, revenue is recognized in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Authority, available means expected to be received within 60 days after year-end.

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year-end: contributions from local units, charges for services, fines and forfeitures, and interest.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Expenditures:

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Budgets and Budgetary Accounting

The Tawas Utility Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority Treasurer submits to the Authority Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. Prior to July 1, the budget is legally enacted through passage of a Board motion.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Authority Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Authority Board.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the fund financial statements.

I. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

K. Fund Equity

Designated fund balance represents the assets in the general fund to be used for future capital improvements.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2004, the Authority has implemented, with exceptions as noted below, Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the programs between governmental activities and business-type activities.

The Authority did not adopt GASB 34 and GASB 37 in its entirety, as permitted by the Local Audit and Finance Division of the Treasury Department of the State of Michigan (State of Michigan), because the Authority believes that the cost of implementing the statements may exceed the benefit of the additional information. The Authority also believes that the omissions of the Management Discussion and Analysis, Government-wide Financial Statements and certain permitted note disclosures were not material to the statements as a whole due to the disclosure of the fixed assets and long-term debt in separate notes in this report. These amounts are not included as account groups in the fund statement, as in the past, per the requirements of GASB 34.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES (CONTINUED)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Funds</u>
Cash and Cash Equivalents	<u>\$ 129,592</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts)	\$ 991
Investments in Securities and Similar Vehicles	<u>128,601</u>
Total	<u>\$ 129,592</u>

Deposits:

Deposits are carried at cost. Deposits of the Authority are held at Huron Community Bank, East Tawas, Michigan, in the name of the Authority. At June 30, 2004, the carrying amounts of the Authority's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	<u>\$ 991</u>	<u>\$ 985</u>

Investments:

The Authority has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 and 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

Investments are categorized into these three categories of credit risk.

1. Insured or registered with securities held by the entity or by its agent in the entity's name.
2. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent in the entity's name.
3. Uninsured and unregistered investments for which the securities are held by the broker or broker's trust department or agent but not in the entity's name.

At June 30, 2004, the Authority's investments consisted of municipal investment pools, which are not required to be categorized with a carrying amount and market value of \$128,601.

NOTE 4 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets of the Authority for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2004, the Authority incurred expenditures in the General Fund which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Miscellaneous	\$ 650	\$ 5,600	\$ 4,950
Interest and fiscal charges	\$ 4,464	\$ 4,563	\$ 99

TAWAS UTILITY AUTHORITY
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 5 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance</u> <u>07/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/04</u>
Land	\$ 7,500	\$ 0	\$ 0	\$ 7,500
Infrastructure	3,249,000 *	0	0	3,249,000
Machinery and equipment	<u>1,630,972</u>	<u>0</u>	<u>0</u>	<u>1,630,972</u>
	<u>\$ 4,887,472</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,887,472</u>

*The Authority is a phase 3 government and per GASB 34 phase 3 governments are not required to report infrastructure retroactively. The Authority has opted to disclose these assets in order to maintain their identity and related costs.

NOTE 6 - OPERATING TRANSFERS

Operating transfers for the year ended June 30, 2004 consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Industrial Park Project Sewer System #2 Debt Service Fund	<u>\$ 72,105</u>	Industrial Park Project Sewer System #2 Construction Fund	<u>\$ 72,105</u>

Transfers are used to move receipts restricted to debt service from the fund collecting the receipts to the fund servicing the debt as debt payments become due.

NOTE 7 - LEASE AGREEMENTSewer System #3

The Authority entered into a capital lease agreement with the County of Iosco. The agreement calls for lease payments in an amount equal to the debt payments due on the County's requirement on a \$4,650,000 bond issue used to partially finance the construction of the sewage treatment facilities. Ownership of the facilities will transfer to the Authority at the expiration of the lease. The debt service requirements mentioned above are being directly made by each municipality involved in the joint agreement. The Authority was established for maintenance of the facilities therefore no debt has been reflected on the books of the Authority.

TAWAS UTILITY AUTHORITY
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004NOTE 8 - LONG-TERM DEBT

GASB 34 Statements do not include General Long-term Debt Account Groups and as the Authority has opted to not adopt GASB 34 in its entirety, the long-term debt information is not included in the basic financial statements. The Authority has opted to disclose this information as follows:

\$650,000 General Obligation Limited Tax Bonds, Series 1993

Said bonds are issued pursuant to a contract entered into between the Tawas Utility Authority and the Township of Baldwin. The bonds were issued for the purpose of paying the cost of acquiring and constructing the sewage disposal system for the Township of Baldwin.

These bonds are backed by the full faith and credit of the Township of Baldwin and paid from a general tax levy.

Interest on bonds is payable at 4.00% - 6.45%.

Annual Principal and Interest Requirements

<u>Year</u>	<u>November 1 Interest</u>	<u>May 1 Principal</u>	<u>May 1 Interest</u>	<u>Total Future Annual Requirements</u>
2004-05	\$ 11,763.75	\$ 45,000.00	\$ 11,763.75	\$ 68,527.50
2005-06	10,357.50	45,000.00	10,357.50	65,715.00
2006-07	8,951.25	45,000.00	8,951.25	62,902.50
2007-08	7,533.75	45,000.00	7,533.75	60,067.50
2008-09	6,105.00	45,000.00	6,105.00	57,210.00
2009-10	4,665.00	45,000.00	4,665.00	54,330.00
2010-11	3,225.00	50,000.00	3,225.00	56,450.00
2011-12	<u>1,612.50</u>	<u>50,000.00</u>	<u>1,612.50</u>	<u>53,225.00</u>
	<u>\$ 54,213.75</u>	<u>\$ 370,000.00</u>	<u>\$ 54,213.75</u>	<u>\$ 478,427.50</u>

Earth Tech Note Payable

The Authority entered into an agreement with Earth Tech to finance the cost of odor control improvements at the wastewater treatment plant. The Authority's obligation was originally for \$209,948 with an interest rate of 8.25%. An additional \$12,000 was added to the note on April 15, 2000 to add a Tri-Gas Monitor to the project. The balance remaining at June 30, 2004 was \$35,304.

The Authority's share of principal and interest requirements for the years succeeding June 30, 2004 is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2004-05	\$ 36,407
Less interest	<u>1,103</u>
Total principal	<u>\$ 35,304</u>

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

The following is a summary of long-term debt transactions of the Authority:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2004</u>
<u>General Long-Term Debt</u>				
General obligation bonds	\$ 415,000	\$ 0	\$ 45,000	\$ 370,000
Note payable	<u>80,678</u>	<u>0</u>	<u>45,374</u>	<u>35,304</u>
	<u>\$ 495,678</u>	<u>\$ 0</u>	<u>\$ 90,374</u>	<u>\$ 405,304</u>

NOTE 9 - MAINTENANCE CONTRACT

The Tawas Utility Authority contracts with an outside firm to provide all routine operation and maintenance of the Authority's facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. As of June 30, 2004, the monthly fee was \$26,871. For the year ended June 30, 2004, the total amount paid to the firm was \$315,342.

NOTE 10 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and physical injuries. The Authority has purchased commercial insurance for general liability, auto liability, errors and omissions and physical damage (equipment, buildings and contents). Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 11 - COMPARATIVE DATA

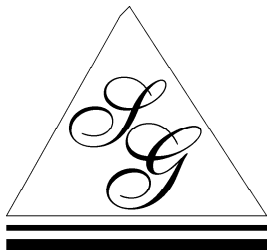
Comparative totals for the prior year have been presented in Exhibits A & B, in order to provide an understanding of changes in the Authority's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for services	\$ 420,152	\$ 420,152	\$ 419,340	\$ (812)
Interest earned	275	275	666	391
Miscellaneous	200	200	241	41
Total revenue	<u>420,627</u>	<u>420,627</u>	<u>420,247</u>	<u>(380)</u>
<u>Expenditures</u>				
Professional services	349,500	349,500	326,838	22,662
Insurance	16,000	16,000	14,003	1,997
Miscellaneous	650	650	5,600	(4,950)
Debt service:				
Principal	50,013	50,013	45,374	4,639
Interest and fiscal charges	4,464	4,464	4,563	(99)
Total expenditures	<u>420,627</u>	<u>420,627</u>	<u>396,378</u>	<u>24,249</u>
Excess of revenue over expenditures	0	0	23,869	23,869
Fund balance - beginning of year	<u>96,603</u>	<u>96,603</u>	<u>96,603</u>	<u>0</u>
Fund balance - end of year	<u>\$ 96,603</u>	<u>\$ 96,603</u>	<u>\$ 120,472</u>	<u>\$ 23,869</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

October 4, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Authority Board
Tawas Utility Authority
Iosco County, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Tawas Utility Authority, Iosco County, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated October 4, 2004. The report on the governmental activities was qualified because the Management Discussion and Analysis and Government-Wide Financial Statements were not included in the basic financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

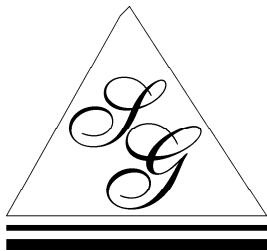
As part of obtaining reasonable assurance about whether the Tawas Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted one immaterial instance of noncompliance that we have reported to management of the Tawas Utility Authority in a separate letter dated October 4, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tawas Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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October 4, 2004

Members of the Authority Board
Tawas Utility Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Tawas Utility Authority for the year ended June 30, 2004, and have issued our report thereon dated October 4, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 25, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Tawas Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Tawas Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Tawas Utility Authority are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Tawas Utility Authority changed accounting policies as a result of adopting, with certain exceptions, Statements of Governmental Accounting Standards (GASB Statements) no. 34, 33, 36, 37, 38 and Interpretation No. 6 in the year ended June 30, 2004. We noted no transactions entered into by the Tawas Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Tawas Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated).

In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Tawas Utility Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Tawas Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our tests of compliance as described in the fourth paragraph, one matter came to our attention upon which we would like to comment and offer the following recommendations.

Budget Control

We noted that the Authority's General Fund included expenditures in a couple of activities that exceeded appropriated amounts. We recommend that the Authority continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

This information is intended solely for the use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.